

CITY OF MINNEOLA, KANSAS

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH	2
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET	3
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET:	
General Fund.....	4
Library Fund.....	5
Library Employee Benefits Fund.....	6
Employee Benefits Fund.....	7
Special Highway	8
Bond and Interest Fund	9
Water Utility Fund	10
Sewer Utility Fund.....	11
Trash Utility Fund.....	12
STATEMENT OF CASH RECEIPTS AND EXPENDITURES:	
CDGB Grant Fund	13
Bond Construction Fund	14
Minneola City Library	15
NOTES TO FINANCIAL STATEMENTS	16

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Minneola, Kansas

We have audited the accompanying financial statements of the City of Minneola, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A to the financial statements, the City of Minneola, Kansas, has prepared these financial statements using the accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Further, in our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Minneola, Kansas as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City of Minneola, Kansas, as of December 31, 2011, and their cash receipts and expenditures, and budgetary results for the year then ended on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

December 10, 2012

CITY OF MINNEOLA, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
Governmental funds:		
General	\$ 90,160	\$ -
Special revenue funds:		
Library	-	-
Library employee benefits	-	-
Employee benefits	2,978	-
Special highway	21,284	-
CDBG Grant	23,698	-
Debt service fund:		
Bond and interest	15,729	-
Capital projects fund:		
Bond construction fund	226,971	-
Proprietary funds:		
Enterprise funds:		
Water utility	37,293	-
Sewer utility	14,594	-
Trash utility	772	-
	<hr/>	<hr/>
Total primary government	433,479	-
Component unit:		
Minneola City Library	44,979	-
	<hr/>	<hr/>
Total reporting entity	<u>\$ 478,458</u>	<u>\$ -</u>
Composition of cash:		
Checking		
Debit card		
Money market		
Certificate of deposit		
Total component units		
Total cash		

The accompanying notes are an integral
part of the financial statements.

<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance</u>
\$ 230,682	\$ 252,507	\$ 68,335	\$ 351	\$ 68,686
16,700	16,700	-	-	-
1,810	1,810	-	-	-
7,381	14,320	(3,961)	-	(3,961)
17,931	28,690	10,525	-	10,525
6,536	30,234	-	-	-
79,320	72,307	22,742	-	22,742
956	66,570	161,357	-	161,357
164,770	143,607	58,456	-	58,456
57,471	61,791	10,274	-	10,274
37,628	36,852	1,548	-	1,548
621,185	725,388	329,276	351	329,627
28,100	32,424	40,655	644	41,299
<u>\$ 649,285</u>	<u>\$ 757,812</u>	<u>\$ 369,931</u>	<u>\$ 995</u>	<u>\$ 370,926</u>
				\$ 33,997
				2,000
				243,630
				50,000
				<u>41,299</u>
				<u>\$ 370,926</u>

CITY OF MINNEOLA, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 325,517	\$ -	\$ 325,517	\$ 252,507	\$ 73,010
Special revenue funds:					
Library	18,320	-	18,320	16,700	1,620
Library employee benefits	2,000	-	2,000	1,810	190
Employee benefits	13,200	-	13,200	14,320	(1,120)
Special highway	29,428	-	29,428	28,690	738
Debt service fund:					
Bond and interest	81,037	-	81,037	72,307	8,730
Enterprise funds:					
Water utility	149,300	-	149,300	143,607	5,693
Sewer utility	81,000	-	81,000	61,791	19,209
Trash utility	65,000	-	65,000	36,852	28,148
	<u>\$ 764,802</u>	<u>\$ -</u>	<u>\$ 764,802</u>	<u>\$ 628,584</u>	<u>\$ 136,218</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 52,804	\$ 54,037	\$ (1,233)
Motor vehicle tax	10,971	11,227	(256)
Recreational vehicle tax	183	219	(36)
16/20M truck tax	20	57	(37)
Special assessments	2,821	-	2,821
Intangibles tax	5,459	4,800	659
Local sales tax	41,407	46,000	(4,593)
Franchise tax	36,708	32,000	4,708
Industrial and machinery tax	-	500	(500)
Licenses, permits and fees:			
Licenses and permits	1,401	1,000	401
Animal control	416	400	16
Fines, forfeitures and penalties	34,346	60,000	(25,654)
Charges for services	17,532	18,600	(1,068)
Interest	1,703	1,000	703
Miscellaneous	24,911	10,000	14,911
Total cash receipts	<u>230,682</u>	<u>\$ 239,840</u>	<u>\$ (9,158)</u>
Expenditures:			
General government			
Personnel	36,965	\$ 28,000	\$ (8,965)
Contractual services	79,881	80,800	919
Commodities	3,541	3,500	(41)
Capital Outlay	14,426	94,161	79,735
Public safety			
Law enforcement	2,700	3,900	1,200
Fire department	7,174	1,600	(5,574)
Municipal court			
Personnel	11,345	7,500	(3,845)
Contractual services	31,346	45,000	13,654
Culture and recreation			
Personnel	29,453	34,900	5,447
Contractual services	26,357	19,200	(7,157)
Commodities	7,805	5,200	(2,605)
Neighborhood revitalization	1,514	1,756	242
Total expenditures and transfers	<u>252,507</u>	<u>\$ 325,517</u>	<u>\$ 73,010</u>
Receipts over (under) expenditures	(21,825)		
Unencumbered cash, beginning of year	90,160	<u>\$ 85,677</u>	<u>\$ 4,483</u>
Unencumbered cash, end of year	<u>\$ 68,335</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

LIBRARY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 13,676	\$ 13,995	\$ (319)
Motor vehicle tax	2,969	2,990	(21)
Recreational vehicle tax	49	58	(9)
16/20M truck tax	6	15	(9)
Total cash receipts	<u>16,700</u>	<u>\$ 17,058</u>	<u>\$ (358)</u>
Expenditures:			
Transfer to component unit	16,308	\$ 17,893	\$ 1,585
Neighborhood revitalization	392	427	35
Total expenditures and transfers	<u>16,700</u>	<u>\$ 18,320</u>	<u>\$ 1,620</u>
Receipts over (under) expenditures	-		
Unencumbered cash, beginning of year	<u>-</u>	<u>\$ 1,262</u>	<u>\$ (1,262)</u>
Unencumbered cash, end of year	<u>\$ -</u>		

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part of the financial statements.

CITY OF MINNEOLA, KANSAS

LIBRARY EMPLOYEE BENEFITS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 1,470	\$ 1,504	\$ (34)
Motor vehicle tax	334	341	(7)
Recreational vehicle tax	5	7	(2)
16/20M truck tax	1	2	(1)
Total cash receipts	<u>1,810</u>	<u>\$ 1,854</u>	<u>\$ (44)</u>
Expenditures:			
Transfer to component unit	1,768	\$ 1,954	\$ 186
Neighborhood revitalization	42	46	4
Total expenditures and transfers	<u>1,810</u>	<u>\$ 2,000</u>	<u>\$ 190</u>
Receipts over (under) expenditures	-		
Unencumbered cash, beginning of year	<u>-</u>	<u>\$ 146</u>	<u>\$ (146)</u>
Unencumbered cash, end of year	<u>\$ -</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

EMPLOYEE BENEFITS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 5,837	\$ 5,974	\$ (137)
Motor vehicle tax	1,518	1,250	268
Recreational vehicle tax	22	24	(2)
16/20M truck tax	4	6	(2)
Total cash receipts	<u>7,381</u>	<u>\$ 7,254</u>	<u>\$ 127</u>
Expenditures:			
General government	14,153	\$ 13,018	\$ (1,135)
Neighborhood revitalization	167	182	15
Total expenditures and transfers	<u>14,320</u>	<u>\$ 13,200</u>	<u>\$ (1,120)</u>
Receipts over (under) expenditures	(6,939)		
Unencumbered cash, beginning of year	<u>2,978</u>	<u>\$ 5,946</u>	<u>\$ (2,968)</u>
Unencumbered cash, end of year	<u>\$ (3,961)</u>		

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part of the financial statements.

CITY OF MINNEOLA, KANSAS

SPECIAL HIGHWAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Taxes and shared revenue:			
State of Kansas gas tax	<u>\$ 17,931</u>	<u>\$ 17,410</u>	<u>\$ 521</u>
Expenditures:			
Personnel	3,672	\$ 8,000	\$ 4,328
Contractual services	1,414	1,500	86
Commodities	22,104	19,928	(2,176)
Capital outlay	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
Total expenditures and transfers	<u>28,690</u>	<u>\$ 29,428</u>	<u>\$ 738</u>
Receipts over (under) expenditures	(10,759)		
Unencumbered cash, beginning of year	<u>21,284</u>	<u>\$ 12,018</u>	<u>\$ 9,266</u>
Unencumbered cash, end of year	<u>\$ 10,525</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

BOND AND INTEREST FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 15,112	\$ 15,463	\$ (351)
Motor vehicle tax	3,477	3,793	(316)
Recreational vehicle tax	60	74	(14)
16/20M truck tax	5	19	(14)
Special assessments	30,666	22,062	8,604
Operating transfer in	30,000	30,000	-
Total cash receipts	79,320	\$ 71,411	\$ 7,909
Expenditures:			
Debt service:			
Principal	53,000	\$ 53,000	\$ -
Interest	18,874	18,875	1
Fees and commission	-	100	100
Cash basis reserve	-	8,590	8,590
Neighborhood revitalization	433	472	39
Total expenditures and transfers	72,307	\$ 81,037	\$ 8,730
Receipts over (under) expenditures	7,013		
Unencumbered cash, beginning of year	15,729	\$ 9,626	\$ 6,103
Unencumbered cash, end of year	\$ 22,742		

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

WATER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:			
Charges for services	\$ 161,181	\$ 140,000	\$ 21,181
Miscellaneous	3,589	-	3,589
Total cash receipts	164,770	\$ 140,000	\$ 24,770
Expenditures:			
Personnel	51,994	\$ 53,500	\$ 1,506
Contractual Services	49,309	64,600	15,291
Commodities	8,222	1,200	(7,022)
Capital outlay	4,082	-	(4,082)
Operating transfer out	30,000	30,000	-
Total expenditures and transfers	143,607	\$ 149,300	\$ 5,693
Receipts over (under) expenditures	21,163		
Unencumbered cash, beginning of year	37,293	\$ 53,807	\$ (16,514)
Unencumbered cash, end of year	\$ 58,456	\$ 44,507	\$ 13,949

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

SEWER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Charges for services	<u>\$ 57,471</u>	<u>\$ 60,000</u>	<u>\$ (2,529)</u>
Expenditures:			
Personnel	37,642	\$ 32,800	\$ (4,842)
Contractual services	14,725	40,400	25,675
Commodities	4,686	2,800	(1,886)
Capital outlay	<u>4,738</u>	<u>5,000</u>	<u>262</u>
Total expenditures and transfers	<u>61,791</u>	<u>\$ 81,000</u>	<u>\$ 19,209</u>
Receipts over (under) expenditures	(4,320)		
Unencumbered cash, beginning of year	<u>14,594</u>	<u>\$ 32,333</u>	<u>\$ (17,739)</u>
Unencumbered cash, end of year	<u>\$ 10,274</u>	<u>\$ 11,333</u>	<u>\$ (1,059)</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

TRASH UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Charges for services	\$ 37,628	<u>\$ 65,000</u>	<u>\$ (27,372)</u>
Expenditures:			
County contractor	<u>36,852</u>	<u>\$ 65,000</u>	<u>\$ 28,148</u>
Receipts over (under) expenditures	776		
Unencumbered cash, beginning of year	<u>772</u>	<u>\$ -</u>	<u>\$ 772</u>
Unencumbered cash, end of year	<u>\$ 1,548</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

CDGB GRANT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL

Year ended December 31, 2011

Cash receipts:	
State of Kansas grant	\$ 6,536
Expenditures:	
Grant expenses	<u>30,234</u>
Receipts over (under) expenditures	(23,698)
Unencumbered cash, beginning of year	<u>23,698</u>
Unencumbered cash, end of year	<u><u>\$ -</u></u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

BOND CONSTRUCTION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL

Year ended December 31, 2011

Cash receipts:	
Miscellaneous	<u>\$ 956</u>
Expenditures:	
Personnel	3,338
Contractual services	56,182
Commodities	7,000
Culture and recreation	<u>50</u>
Total expenditures and transfers	<u>66,570</u>
Receipts over (under) expenditures	(65,614)
Unencumbered cash, beginning of year	<u>226,971</u>
Unencumbered cash, end of year	<u><u>\$ 161,357</u></u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS

**MINNEOLA CITY LIBRARY
(A COMPONENT UNIT)**

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL

Year ended December 31, 2011

Cash receipts:	
City appropriation:	
General	\$ 16,308
Employee benefits	1,768
State aid	309
SWKLS grants	6,288
Memorials	1,689
Other income	490
Interest on investments	248
Summer reading	<u>1,000</u>
Total cash receipts	<u>28,100</u>
Expenditures:	
Materials	5,262
Operations	10,331
Personnel	15,010
Technology	<u>1,821</u>
Total expenditures	<u>32,424</u>
Receipts over (under) expenditures	(4,324)
Unencumbered cash, beginning of year	<u>44,979</u>
Unencumbered cash, end of year	<u><u>\$ 40,655</u></u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MINNEOLA, KANSAS
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are the representation of the City's management, which is responsible for their integrity and objectivity.

1. Reporting entity

The City of Minneola is a municipal corporation governed by an elected mayor and five-member council. The scope of the entity for financial reporting purposes is defined as those funds for which the governing body of the City has financial accountability. Financial accountability includes budgetary authority and fiscal management responsibility. Budgetary authority is defined as authority for final approval of budgetary appropriations and revisions. Fiscal management responsibility is control of the collection and disbursement of funds. These financial statements present the City of Minneola, Kansas (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its operational and financial relationship with the City.

Discretely presented component unit

The component unit section of these financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City.

Minneola Library: The members of the governing board of the Library are approved by the City Council. The Library is fiscally dependent on the City because the budget is approved by the City Council. In addition, the Library is prohibited from issuing bonded debt without the approval of the City Council.

Complete financial statements of the Minneola Library can be obtained at:

Minneola Library
112 S. Main Street
Minneola, KS 67865

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity. City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following types of funds comprise the financial activities of the City for the year of 2011:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Fund accounting (continued)

GOVERNMENTAL FUNDS

General fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operation the government for which a separate fund has not been established.

Special revenue funds

These funds are established to account for the proceeds of specific revenue sources other than special assessments, trust funds, or major capital projects that are restricted by law or administrative action to expenditure for specified purposes.

Debt service fund

This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt, including special assessments which are general obligations of the City.

Capital projects fund

This fund is established to account for financial resources to be used for the acquisition and construction of major capital facilities.

PROPRIETARY FUNDS

Enterprise funds

These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Basis of accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of accounting (continued)

Departure from accounting principles generally accepted in the United States of America. The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

4. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the official newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for CDGB Grant fund or the capital project fund.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary information (continued)

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

5. Cash and Investments

To facilitate better management of City cash resources, excess cash is combined in pooled operating accounts. Each fund's portion of total cash is based on its equity in the pooled cash amount. Cash in excess of current operating needs is invested on a pooled investment basis and earnings thereon are distributed to the general fund and other appropriate funds. Investments consist of certificates of deposit reported at cost, which approximates fair value.

6. Ad valorem tax revenue

The determination of assessed valuation and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November 1 and a lien for all taxes shall attach on that same date until the taxes are paid. One-half of the property taxes are due December 20 and distributed to the City by January 20 and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

7. Special assessments

Projects financed in part by special assessments are financed through issuance of general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

8. Pension plan

Substantially all full-time employees are members of the State of Kansas Public Employees' Retirement System (KPERs) which is a cost-sharing multiple-employer state-wide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

9. Other post employment benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. This premium is paid in full by the insured. There is no cost to the City under this program.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Compensated absences

Vacation is accumulated at the rate of 10 days per year and is available after one full year of service, after 10 years of service 15 days per year is available. The City's policy requires all vacation to be used within one year after it is earned.

Sick leave is accumulated at the rate of 1 day per month. The maximum number of hours eligible to be carried over to a subsequent year is 240 hours. Unused sick leave is not paid upon termination or resignation. The City's policy is to recognize the costs of compensated absences when actually paid.

11. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover property, liability and worker's compensation claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

B. COMPLIANCE WITH KANSAS LAW

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration to the Director of Accounts and Reports, Kansas Department of Administration, and interpretation by legal representatives of the City.

The cash basis law provided by K.S.A. 10-1113 prohibits the creation of indebtedness in any fund in excess of monies available in that fund. At year end, the Employee Benefits fund had indebtedness in excess of available monies in the amount of \$3,961.

The budget law provided by K.S.A. 79-2935 prohibits the creation of indebtedness in any fund in excess of the amount allowed by budget. At year end, the Employee Benefits Fund had expenditures in excess of budget in the amount of \$1,120.

C. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

C. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$329,627. The bank balance was \$335,975. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$85,975 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

D. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest paid</u>
General obligation bonds:					
Street & Utilities Improvements					
Issued September 1, 2005					
In the amount of \$175,000					
At an interest rate of 4.0%-5.75%					
Maturing September 1, 2015	\$ 98,000	\$ -	\$ 18,000	\$ 80,000	\$ 4,061
General Improvements					
Issued September 28, 2009					
In the amount of \$465,000					
At an interest rate of 2.0%-4.25%					
Maturing November 1, 2020	430,000	-	35,000	395,000	14,813
Capital leases:					
Gator & Hustler mower					
Issued May 6, 2010					
In the amount of \$19,810					
At an interest rate of 5.06%					
Maturing May 6, 2012	12,878	-	6,280	6,598	652
Hustler mower					
Issued May 18, 2011					
In the amount of \$7,856					
At an interest rate of 4.65%					
Maturing May 18, 2013	-	7,856	2,738	5,118	-
Total long-term debt	<u>\$ 540,878</u>	<u>\$ 7,856</u>	<u>\$ 62,018</u>	<u>\$ 486,716</u>	<u>\$ 19,526</u>

Current maturities of general obligation bonds for the next five years and thereafter through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 59,000	\$ 17,454	\$ 76,454
2013	60,000	15,575	75,575
2014	70,000	13,645	83,645
2015	51,000	11,180	62,180
2016	45,000	9,313	54,313
2017-2020	<u>190,000</u>	<u>20,587</u>	<u>210,587</u>
Total	<u>\$ 475,000</u>	<u>\$ 87,754</u>	<u>\$ 562,754</u>

D. LONG-TERM DEBT (CONTINUED)

Current maturities of capital leases and interest through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 9,098	\$ 572	\$ 9,670
2013	<u>2,618</u>	<u>122</u>	<u>2,740</u>
Total	<u>\$ 11,716</u>	<u>\$ 694</u>	<u>\$ 12,410</u>

E. INTERFUND TRANSACTIONS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Water Utility	Bond and Interest	K.S.A. 12-825d	<u>\$ 30,000</u>

Transfers to component units were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
Library	Minneola City Library	\$ 16,308
Library Employee Benefits	Minneola City Library	<u>1,768</u>
		<u>\$ 18,076</u>

F. DEFINED BENEFIT PENSION PLAN

Plan description. The City of Minneola, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate of covered salaries at 4% for Tier I members (generally active members prior to July 1, 2009) and 6% for Tier II members (generally active members on or after July 1, 2009). The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2011 was 7.74%. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$11,162, \$9,722, and \$6,159, respectively, equal to the required contributions for each year.

G. DEBT LIMITATION

The amount of long-term debt that can be incurred by the City is limited by K.S.A. 10-308. K.S.A. 10-309 provides for certain exemptions and K.S.A. 10-311 exempts revenue bond issues from the overall limitation. Except as provided in other statutes the total outstanding bonded indebtedness during a year can be no greater than 30% of the assessed value of taxable tangible property as certified to the County Clerk on the preceding August 25. As of December 31, 2011, the City did not have any debt subject to the limitations imposed by K.S.A. 10-308.

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.